

## Abstract

Financial decision making by rural households in developing countries deserve research attention as the household finance landscape is undergoing a recent transition by shifting its focus from informal finance to formal finance as a result of several financial inclusion initiatives at the global and national levels. In this historically relevant context, this thesis presents research insights about the diverse aspects of household financial decision making in a developing country like India. As data availability is a major constraint in the field of household finance in developing countries, I use field research based on primary data as the major source of data for most of the essays in my thesis and combine field research with available national level data to provide relevant policy insights. In the first essay, I explore the major factors influencing the investment behaviour of rural households in India and find that financial attitude plays a significant role in the participation of rural households in financial markets even after controlling for the major socio-demographic factors and economic characteristics at the household level. In the second essay, I examine the debt sustainability of rural households in a financially included region and find that the overall analysis gives a mixed picture about the debt sustainability of rural households. While debt is sustainable by considering land as an asset, it is not when I exclude land as an asset due to its fairly illiquid nature. An analysis of the determinants of household level indebtedness shows that socio-economic factors like education and age of the household head, main source of household income and household asset value without land influence household level indebtedness. In the third essay, I check the role of debt literacy in the credit usage of rural households and find that debt literacy empowers individuals from rural households to make use of formal sector credit. In the fourth essay, I examine the role of financial capability on formal financial engagement of rural households and find that financial capability significantly influences an individual's usage of mostly bank based financial services. Among the components of financial capability,

I find that cognitive ability, especially the memory and numerical ability aspects of cognition influences financial engagement. The last essay explores how debt literacy influences the coping of rural households in the aftermath of a natural disaster and finds that debt literacy is enabling better recovery of rural households in the aftermath of such an exogenous shock by increasing reinvestment to repair or replace flood induced damage.

Though there is still a long way to go for a developing country like India to achieve 100 per cent financial inclusion in all the regions, findings from my thesis offer important cues for policy makers to effectively address the challenges and harness the opportunities in the household financial landscape undergoing rapid transition. The empirical evidence regarding the significant role of financial attitude, knowledge and capability on different financial decisions of the rural households on diverse aspects like the investment behaviour, debt sustainability, credit usage, financial engagement and recovery after an exogenous shock offer important policy insights for improving the welfare of rural households in other regions within India and also other developing countries which are also witnessing a recent increase in the levels of financial inclusion.